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## **FINANCIAL CONTROL – AN IMPORTANT TOOL OF FINANCIAL MANAGEMENT**

### *KONTROLA FINANSOWA – WAŻNE NARZĘDZIE ZARZĄDZANIA FINANSAMI*

**Key words: financial management, corporate finances, financial goals, control**

*Słowa kluczowe: zarządzanie finansami, finanse przedsiębiorstwa, cele finansowe, kontrola*

**Abstract.** The importance of financial management has increased in the recent decade that was proven by many researchers. To make the financial management able to fulfill its new and common tasks, and to support the board, and the CEO with the required financial information, an information system is needed. With the help of this information system that should be based on financial accounting and controlling system information can realize an effective financial decision-making on the strategic and annual time dimension.

The study aims to examine the main factors that have to determine the role of financial control mechanisms. To get a proper picture about financial control – what its role, tasks and tools are – there was accomplished also an international overview of scientific literature.

### **Introduction**

The controlling function is a management subsystem that performs coordination connecting the processes of planning, reviewing and information support to satisfy the information needs and realize company goals both on the annual and strategic levels [Horvath, Dobak 1990] The coordination activity is interpreted as system development and system harmonization, synchronization. The basic controlling system consists of management accounting, planning and reporting systems and the system like synchronization of them.

Financial control is a functional control area that puts the supporting of financial managements decisions information needs into foreground besides fulfilling the common controlling principles. Financial control means the use of basic controlling tasks on the field of corporate finances (planning the financial activities, financial standards, requirements, measuring fact data, indexes, performing plan-fact analysis, financial problems, bad tendencies, activities, management policies, and development of correction proposals) [Sinkovics 2007].

So to define financial control the tasks of financial management, and financial aims, the controlling principles and their relation to the realization of financial goals have to be cleared.

The study aims to examine the main factors that have to determine the role of financial control mechanisms.

### **Financial management, definition, tasks, goals**

The evaluation of financial management definitions it has been found that authors try to make definitions from the aspect of task and functions. The orientation and tasks of financial management are basically influenced by the stakeholders' expectations, and financial management priorities.

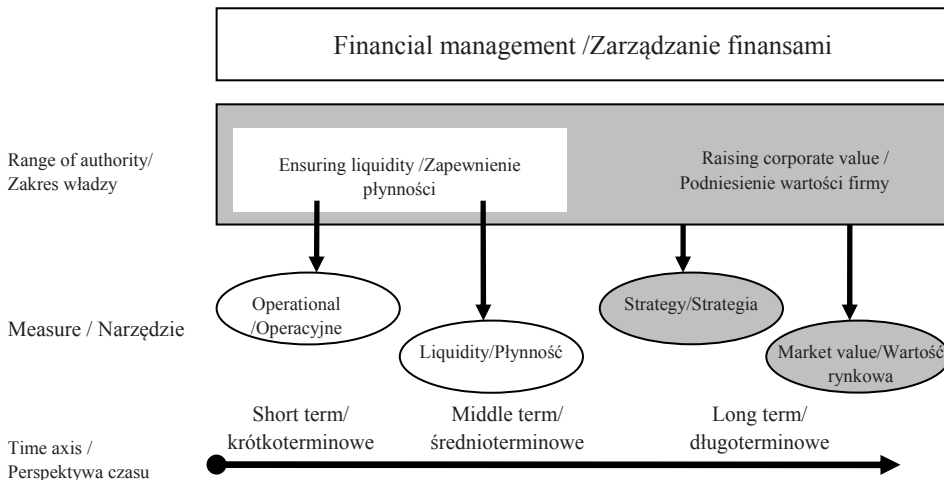
The theory of financial management can be looked at as an extension of corporate theory. Considering that traditional emphasis of microeconomics lays on the connection of the level of yield and output – beside a fix level of capital – financial management concerned with the connection of the profitability the volume of capital employed [Solomon 1963].

Brealy-Myers [2005] put emphasis on financial managers' intermediary role between the company and the financial markets. The term of financial management is used for that person, who is responsible for the investment and financial decisions. The highlight that for these decisions are usually more than one person is responsible, so its not an easy question to define the role of the financial manager. This leads to the conclusion that the personalized appearance of financial managements' functions depends on the size of the company, and the necessity of tight cooperation with other top managers.

**Table 1. The tasks of financial management**  
**Tabela 1. Zadania zarządzania finansami**

Tasks of managing/Zadania zarządzania	
financial processes/procesem finansowym	financial structure/strukturą finansową
The development of corporations' optimal financial flows, that include/rozwój optymalnych przepływów finansowych w firmie, włączając: – governance/governance – organizing/organizację – planning/planowanie – control, according to well-defined goal criteria/kontrolę na podstawie dobrze opracowanych kryteriów Preparation and realization of taking credit/Przygotowanie wniosków i zaciąganie kredytów Preparation and realization of raising owners capital / przygotowanie i wdrażanie celów zwiększania kapitału własnego	Examination of financial sources' volume needed for operating /ocena zasobów finansowych niezbędnych dla działania firmy Sketching alternative financing possibilities/ poszukiwanie alternatywnych możliwości finansowania Optimization of /optymalizacja: – capital structure/struktury kapitału – asset structure according to goal criteria/ struktury aktywów zgodnie z przyjętymi kryteriami
In its sphere of authority/w sferze zarządzania: – permissive and/liberalny: – operational decision- making level (planning- and decision-making in the short or middle-long term: max 4-5 years)/ operacyjny poziom podejmowania decyzji (planowanie i decydowanie w krótkim i średnim czasie, max 4-5 lat)	In its sphere of authority/W sferze zarządzania: – strategic decision- making level (planning and decision-making on long- term: more than 5 years)/operacyjny poziom podejmowania decyzji (planowanie i decydowanie w długim czasie, pow. 5 lat)

Source/Źródło: Busse 2003



**Figure 1. Main goals of financial management**

**Rysunek 1. Główne cele zarządzania finansami**

Source/Źródło: Präscht 2007

Busse [2003] makes a difference between the task of financial management. He separates the leading task of financial processes, from the tasks that are in connection with the financial structure in accordance with the planning and decision-making levels. (dispositive, operational, strategic) – table 1.

The strategic task definition of financial management includes the stable corporate value growth beside the operational goal of ensuring liquidity (Fig. 1).

As a summary we can define the financial management as an element of the corporations' management system. It is a subsystem that is responsible to do the governing, planning, organizing and controlling of financial processes and coordinates the financial function on the operational and strategic level according to the company goals. Within this framework it takes a part in determining of the strategy beside the top management and supporting it simultaneously. It is responsible for the realization of the financial strategy and the realization of the supporting operational plans, for developing the organization, information system and other conditions.

## Definition of controlling

The interpretation of controlling –goal, content, tool system, possibility of application- is different according to theoretic and praxis professionals. The literature offers two aspects for the interpretation. The first is the system approach [Noszkay 1994, Pál 1996, Gál 1997] that captivates the role of data processor, interpreter, plan-fact analyzer, decision preparatory, the second is the management theory approach [Anthony 2009, Bodnár 1997], that explains the control function as a management function.

According to Körmendi and Tóth [1996], and Francsovcics [2005] controlling consists of the following functions:

- determining the corporate goals, and goal setting process (strategic and operational level), economic planning,
- reviewing of results, comparison of plan-fact values (detailed cost, earnings and performance settlement system (management oriented accounting), development of index-number systems, examination of the deviations from plans,
- data collecting, processing for decision preparation and selecting intervention areas,
- information service for the correspondent management levels, and the improvement of management information system.

Soós [2003] breaks up the controlling task into two groups, the system developer functions, so the ones that develop, create, and improves the structures needed by the controlling and the system operator functions, that operate the structures.

Basic data are coming from the records of the financial and managerial accounting. In determination of the plan and fact positions data that are coming from the different special functional areas of operation in daily, weekly frequency play determining role. Among the information sources we can make differences according to inner (e.g. accounting, finance, different functional areas) and outer (e.g. market information) sources.

„The content of information system depends on the size, level of improvement, branch of activity and the position of the life cycle” [Hanyecz 2009]. The task of controlling as an information system is the procession of and framing these data into information.

Francsovcics [2005] determines the information demand as a social- economics environment, the organizational and legal form of the company, its size, proper scope, the type of information, frequency (periodical or occasional) and the determination of cost/benefit.

From the aspect of controlling tools Becker and Baltzer [2009] opposites more factors according to the tools are from toolbar of controlling, business economy, management or other functional areas. So they indentify as a special controlling tools (the reporting system, the cost calculations and environment analysis) comprehending two areas (e.g. Balanced scorecard, budget calculation, conjoint analysis, lifecycle calculation, rentability calculations) comprehending of more than two areas (e.g. ABC analysis, benchmarking, break-even point analysis, decision tree, experiential curve, GAP analysis, index number/ index number systems, investment calculations, portfolio analysis, forecasting methods, risk analysis, sensitivity analysis etc.).

The authors introduce the controlling tool usage of the different functional fields. Among the functional fields the production and the financial field lean on the controlling tools to the highest degree.

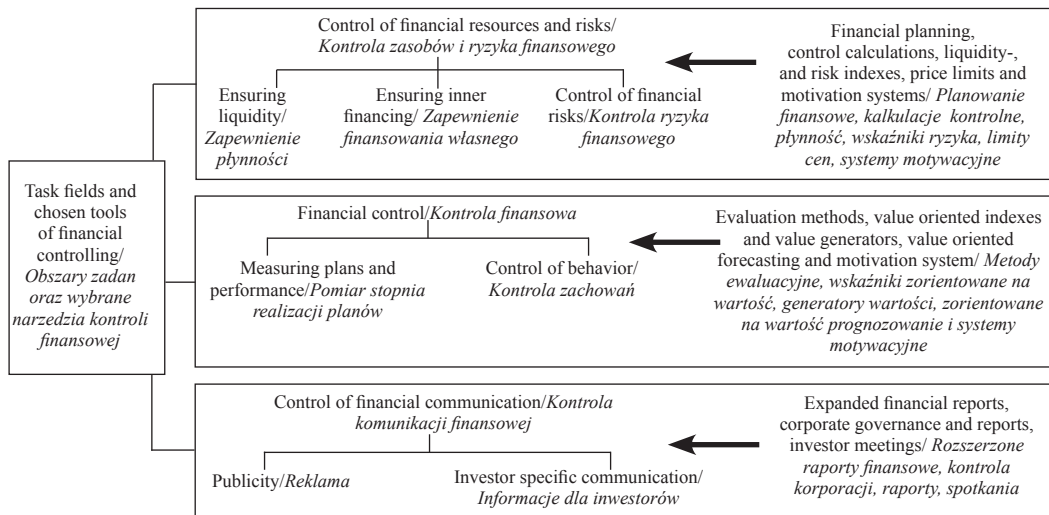
## Financial controlling, goals, tasks

Financial control consists of the former mentioned common controlling elements, but serving the financial management has an elemental priority.

Financial controlling supports the financial management decision process with a function comprehensive governing toolbar through goal oriented information collecting and processing. Besides it fulfills an important coordination role. The system developer function develops the financial controlling function itself; in holds the system linked functions and the coordination of financial management system and other subsystems of the company. Financial controlling provides such an efficient tool system to the financial management that performs a systematic short and long term planning and its necessary control according to the desired financial company goals. As an information source it uses the past oriented data of financial accounting, and the future oriented information like its self-made financial plans

Prätsch [2007] posts the reporting and documentary, system developer (besides the system usage) and corporate economic advising tasks to financial controlling.

In the concept of Witt and Witt [1994] these standpoints are also to be found, but highlight the role of liquidity, the forecast of balance shield, and income statement, the budget calculations, and the development of financial index numbers. According to the size of the company they mark the necessity of integration to a unified controlling concept as the most important building stone



**Figure 2. Task fields and chosen methods of financial control**  
**Rysunek 2. Zadania przypisane im wybrane metody kontroli finansowej**  
 Source/Źródło: Gillenkirch 2008

In the phases of the financial department's leading and decision-making processes (financial planning, realization, control) the following tasks has to be done (Fig. 2.).

## Conclusions

Financial controlling can be a very important tool for financial management, as it takes over some management functions, according to working mechanism of common controlling.

It fulfills the financial planning on the strategic and operational levels and it synchronizes and coordinates the development and realization of financial plans with the other subsystems' information, to get a consistent corporate plan as a result.

Financial controlling focuses on the financial structure of the company beside the flow like motions, to keep stable financial positions, liquidity and desired rate of returns of capital, rentability and stable growth in corporate value.

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### ***Streszczenie***

*W artykule przedstawiono analizę głównych czynników, które determinują rolę finansowych mechanizmów kontroli w przedsiębiorstwie. Dokonano szerokiej prezentacji kontroli finansowej, jej roli, zadań i narzędzi w odniesieniu do przedsiębiorstwa rolnego.*

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